

INDEX

	Page
Opinion below -----	1
Jurisdiction-----	1
Statement -----	3
Statutes involved-----	5
Summary of argument-----	7
Argument:	
I. THE PROPER CONSTRUCTION OF THE ACT OF JULY 1, 1918-----	8
II. APPLICATION OF THE ACT OF JULY 1, 1918, TO THE FACTS OF THIS CASE-----	20
Conclusion -----	22
Appendix: Unreported opinion in <i>Luellen Railway Artillery, Inc. v. Pullman Co.</i> -----	25

AUTHORITIES CITED

Cases:

<i>Cramp & Sons v. Curtis Turbine Co.</i> , 246 U. S. 28-----	13, 14
<i>Crozier v. Krupp</i> , 224 U. S. 290-----	11, 13
<i>Floyd Smith Aerial Equipment Co. v. Irving Air Chute Co.</i> , 276 Fed. 834-----	19
<i>Foundation Co. v. Underpinning & Foundation Co.</i> , 256 Fed. 374-----	19
<i>Isherwood v. Newport News Shipbuilding & Dry Dock Co.</i> , 289 Fed. 282; 5 F. (2nd) 924-----	20
<i>Louie v. United States</i> , 254 U. S. 548-----	3
<i>Luellen Railway Artillery, Inc. v. Pullman Co.</i> (unre- ported) -----	20
<i>Marconi Wireless Telegraph Co. v. Simon</i> , 246 U. S. 46--	15
<i>Wood v. Atlantic Gulf & Pacific Co.</i> , 296 Fed. 718-----	12, 17, 20

Statutes:

Act of June 25, 1910, c. 423 (36 Stat. 851)-----	5, 6
Act of July 1, 1918, c. 114 (40 Stat. 704, 705)-----	6, 7
Act of February 13, 1925, c. 229 (43 Stat. 936)-----	2, 22
Judicial Code, Sec. 238-----	2, 3, 22



In the Supreme Court of the United States

OCTOBER TERM, 1925

No. 239

SPERRY GYROSCOPE COMPANY, APPELLANT

v.

ARMA ENGINEERING COMPANY

*ON APPEAL FROM THE DISTRICT COURT OF THE UNITED
STATES FOR THE EASTERN DISTRICT OF NEW YORK*

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

OPINION BELOW

The opinion of the United States District Court (R. 42) is not reported.

JURISDICTION

The judgment of the United States District Court was entered October 9, 1924. (R. 49.) Direct appeal to this Court was taken December 30, 1924. (R. 49.) The judgment of the District Court provided "that the bill of complaint be and the same is hereby dismissed for lack of jurisdiction." Direct appeal to this Court was evidently taken on the theory that it was authorized by Sec-

tion 238 of the Judicial Code as it stood prior to the Act of February 13, 1925, and which provided that appeals might be taken from District Courts direct to this Court—

In any case in which the jurisdiction of the court is in issue, in which case the question of jurisdiction alone shall be certified to the Supreme Court from the court below for decision * * *.

It is far from clear that the jurisdiction of the District Court, in any proper sense, was at issue. The question was not, as stated in the appellee's brief, whether a District Court of the United States or the Court of Claims has jurisdiction of the cause of action presented by the bill of complaint. The Court of Claims could have no jurisdiction over a suit against a private corporation. The real question is not, properly speaking, one of jurisdiction, but whether the appellant (plaintiff below) has a cause of action against the appellee (defendant below) enforceable in any court, the contention of the latter being that the Act of July 1, 1918, providing that when a patented article is manufactured for the United States without license from the owner of the patent the latter's remedy shall be by suit against the United States in the Court of Claims, operated to exclude any recovery against a contractor manufacturing a patented article for the United States. In other words, the District Court held, in substance, that the plaintiff had no cause of action against the Arma Engineering Com-

pany because the cause of action had been taken away by the United States under the power of eminent domain.

In principle, this case, so far as jurisdiction is concerned, is like that of *Louie v. United States*, 254 U. S. 548, where the Court held that the question was not really one of jurisdiction, but went to the merits, and that a direct appeal to the this Court was unauthorized.

The United States District courts have jurisdiction over suits arising under the patent laws, other than suits against the United States. If the District Court in this case could not allow recovery to the plaintiff, it was not through want of jurisdiction over the parties or the subject matter, but because no cause of action existed in favor of the plaintiff and against this defendant on account of the manufacture of patented articles for the United States, which could be enforced in *any* court.

STATEMENT

This suit was brought in July, 1923, in the United States District Court for the Eastern District of New York by the Sperry Gyroscope Company, a corporation, against the Arma Engineering Company, a corporation, to enjoin the latter from manufacturing and selling the gyroscopic apparatus claimed to infringe patents owned by the Sperry Company, and to recover damages and profits on account of prior infringements. As originally

drawn, the bill of complaint covered the manufacture and sale of the alleged patented apparatus not only to the United States but to others.

By amendments to the bill of complaint (R. 48), the scope of the action was finally limited to a claim for damages or profits on account of the manufacture and sale by the defendant of gyroscopic compasses for the United States Navy Department under contract with said Department, the allegation being "that the defendant * * * without the license * * * of plaintiff * * * made a number of gyroscopic compasses for and sold them to the United States Navy Department under contract with the said Navy Department * * * during the years 1918 to 1923, all in infringement of the aforesaid Letters Patent." The contract between the United States and the Arma Engineering Company is not set forth in the record, and it does not appear whether that contract contained any provision to the effect that the Arma Engineering Company should indemnify and protect the United States against claims arising under patents. It will be noted that the complaint alleges that the defendant manufactured and sold the gyroscopic compasses to the Navy Department during 1918, but it does not appear whether the compasses were delivered to the United States before or after July 1, 1918. There is no allegation in the bill of complaint, and nothing in the record, to show that the contract specifications for the compasses were such that a performance of

the contract necessarily involved an infringement of the patents, or that the contractor might not have performed his contract by delivering gyroscopic compasses which did not infringe. The case was disposed of by the District Court on bill, answer, and some answers to interrogatories.

STATUTES INVOLVED

The Act of June 25, 1910 (Chap. 423, 36 Stat. 851), is as follows:

An Act to provide additional protection for owners of patents of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever an invention described in and covered by a patent of the United States shall hereafter be used by the United States without license of the owner thereof or lawful right to use the same, such owner may recover reasonable compensation for such use by suit in the Court of Claims: Provided, however, That said Court of Claims shall not entertain a suit or reward compensation under the provisions of this Act where the claim for compensation is based on the use by the United States of any article heretofore owned, leased, used by, or in the possession of the United States: Provided further, That in any such suit the United States may avail itself of any and all defenses, general or special, which might be

pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise: *And provided further*, That the benefits of this Act shall not inure to any patentee, who, when he makes such claim is in the employment or service of the Government of the United States; or the assignee of any such patentee; nor shall this Act apply to any device discovered or invented by such employee during the time of his employment or service.

The Act of July 1, 1918 (Chap. 114, 40 Stat. 704, 705), provides:

The Act entitled "An Act to provide additional protection for the owners of patents of the United States, and for other purposes," approved June twenty-fifth, nineteen hundred and ten, shall be, and the same is hereby, amended to read as follows, namely:

"That whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however*, That said Court of Claims shall not entertain a suit or award compensation under the provisions of this

Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further*, That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise: *And provided further*, That the benefits of this Act shall not inure to any patentee who, when he makes such claim, is in the employment or service of the Government of the United States, or the assignee of any such patentee; nor shall this Act apply to any device discovered or invented by such employee during the time of his employment or service."

SUMMARY OF ARGUMENT

The Act of June 25, 1910, merely waived the immunity of the United States from suit on claims of a patentee for infringing use by the United States and did not affect the liability to the patentee of others who manufactured infringing articles for the United States. The Act of July 1, 1918, made a radical change, in that it took from the patentee, under the power of eminent domain, his cause of action against one who manufactures infringing articles for the United States and, by way of compensation placed on the United States the entire liability for the infringing manufacture for, as well as the use by, the United States. To

be a "manufacture for" the United States within the meaning of the Act of 1918, so as to place the liability on it and release its contractor, it must appear that the performance of the contractor's agreement to make and deliver articles to the United States necessarily involved infringement.

If the contract may be performed without infringement, the contractor may not by either conscious choice or ignorance or inadvertence make an infringing article and place the liability for infringing manufacture on the United States and relieve himself from it. In this case the record does not show that the contractor was required by his contract to make and deliver to the United States compasses infringing the appellant's patents, and so far as the record shows it may have been possible for the contractor to comply with his contract by furnishing compasses which did not infringe, and, therefore, liability for the infringing manufacture was not shifted to the United States, and the complaint stated a cause of action.

ARGUMENT

I

THE PROPER CONSTRUCTION OF THE ACT OF JULY 1, 1918

The Act of 1910 did not provide for the assumption by the United States of any liability to a patentee for infringement incurred by those who manufactured patented articles for and sold them to

the United States, nor did it relieve the contracting manufacturers from liability to the patentee for infringing manufacture and sale. It made the United States liable only for the infringing *use by* the United States, for which no other persons would be liable to the patentee in any event. It therefore clearly provided an additional protection to the patentee by waiving the immunity of the United States from suit, and allowing the patentee to enforce against the United States a liability that the United States alone incurred.

The Act of July 1, 1918, made a radical change. While the Act of 1910 recited that it provided "additional" protection for patents, the Act of 1918, while referring to the Act of 1910 as an Act to provide additional protection for patentees, contains no assertion that it—the Act of 1918—has any such purpose, and there is in it no suggestion, through the use of words reciting an intent to provide additional protection, that the patentee was to retain his rights or remedies against those who manufactured infringing articles for the United States.

The Act of 1918 provides that if a patented invention is manufactured or used *by* the United States the latter shall be subject to suit. For such an infringement the United States alone would be liable in any event, and in this respect the statute differs only from the Act of 1910 in waiving immunity of the United States from suit for in-

fringement resulting from the *manufacture by* as well as the *use by* the United States—an addition of no practical importance.

The Act of 1918, however, also provides that the United States shall be liable if the patented invention is, without a license from the patentee, manufactured, *for* the United States by others. In this respect the Act is more than a waiver of immunity. It effects an assumption of liability and an obligation to pay, for infringements, liability for which would otherwise rest on others.

It goes one step further and makes the remedy against the United States exclusive, and creates an immunity from suit in favor of the contractor or third party, who has made the infringing device for the United States.

The statement that “such owner’s remedy shall be by suit against the United States,” under familiar rules of construction, excludes the idea of any remedy against any one other than the United States, and excludes the idea of a remedy by injunction against the United States.

This idea is further driven home by the statement in the Act that from the United States the patentee shall recover his “entire compensation for such use and manufacture.” To say that this language shows an intention to give the patentee the option to recover either from the United States or from its contractor damages for the manufacture of infringing devices by the contractor for the

United States is to disregard the plain meaning of words.

The effect of the statute, therefore, is an expropriation by the United States, under the power of eminent domain, of any cause of action which the patentee might have against the contractor who manufactures for the United States with a provision for awarding compensation for such taking, in a suit against the United States in the Court of Claims. This amounts to a taking by the United States not only of a license under the patent for use by it of the infringing article, but a free license in favor of the contractor to manufacture the infringing article for the United States, compensation for such taking to be paid by the United States, upon being fixed by the Court of Claims.

It is not necessary, where such an exercise of the power of eminent domain occurs, that compensation should be paid in advance of or simultaneously with the taking. *Crozier v. Krupp*, 224 U. S. 290.

There is no substance to the contention that the taking of property without providing for an award of compensation by a jury, as distinguished from a court, is a violation of the Federal Constitution.

The Act of 1918 covers cases where an invention is "used or manufactured by or for the United States." It plainly covers a use by the United States and the manufacture by or for the United States. Whether it covers a case of a patented device or tool used for the United States by a

contractor in doing work for the United States, or in manufacturing unpatented devices for the United States, is not clear. *Wood v. Atlantic Gulf & Pacific Co.*, 296 Fed. 718, 719. That question may be laid aside in this case, because not presented by this record.

A patent protects the patentee in the fields of manufacture, sale and use. The Act of 1918 makes the United States liable in money damages for *use by* it, and for the moneys ordinarily recoverable from an infringing manufacturer, where patented devices are *manufactured for* it. It definitely excludes liability on the United States where the latter buys infringing patented devices which have not been specially manufactured for it, because the Act of 1918 does not cover the sale to the United States of infringing devices, except in those cases where the devices are "manufactured for" it. This case presents only a situation where patented devices were manufactured for the United States.

It remains only to consider when a device is manufactured for the United States within the meaning of the Act of 1918, and whether liability is shifted to the United States by that Act in the case of the manufacture of infringing patented devices for the United States, where the United States may not have intended an infringement.

The appellant contends that because the Act of 1918, as well as the Act of 1910, amounted to an exercise of the power of eminent domain, the ex-

ercise of that power will not be presumed, in the absence of an intention to exercise it.

In *Crozier v. Krupp*, 224 U. S. 290, it appeared that Crozier, as Chief of Ordnance, was engaged as an officer of the United States in directing the manufacture by the United States of guns embodying patented inventions. The United States was, in fact, the manufacturer. The point was made that as the United States was the principal, and Crozier only its officer, the suit was one against the United States. That point was laid aside as unnecessary for decision. The Court held that the Act of 1910 amounted to an appropriation by the United States of a license to use in any case where it in fact used a patented invention, and that the remedy of the patentee, so far as concerned *the use by the United States*, was against it in the Court of Claims. No point was made as to whether the United States was liable unless it intentionally infringed or thought it was infringing, and the case proceeds on the theory that if there was in fact a use by the United States of an infringing device, the question whether it consciously infringed in the sense of knowing it was using a patented device, was immaterial. The opinion does not justify any other conclusion.

In *Cramp & Sons v. Curtis Turbine Company*, 246 U. S. 28, Cramp made a contract with the United States to build destroyers according to detailed plans and specifications. The contract con-

tained the express provision that the contractor would hold the United States harmless from all liability to patentees on account of the *use* of any patented invention, article, or appliance. The case involved patents on the turbine engines installed in the destroyers. The suit was against Cramp & Sons, who did not use the patented device, but manufactured and sold it to the United States, and as the Act of 1910 only imposed liability on the United States for use by it and left its contractor liable to the patentee for manufacture and sale, it was quite evident that there was nothing in the Act of 1910 which prevented the patentee from recovering damages against Cramp & Sons for the manufacture and sale of the patented device. Cramp contended that by virtue of the Act of 1910 the United States had acquired, under the right of eminent domain, a license to use the patented turbines and that Cramp & Sons had merely built the articles for one licensed to use them, and therefore the manufacture and sale in effect were licensed. This was obviously untenable, as the license of one person to use does not protect another who manufactures and sells to the licensee.

Recognizing that a patent covers the exclusive right to manufacture, use, and sell, and that each one of these acts may constitute an infringement, all that the Court decided, or intended to decide, in the *Cramp* case was that the Act of 1910, which made the United States liable to the patentee for its unlicensed use of a patented article, and which

act effected only a waiver by the United States of immunity from suit, did not operate to relieve others who manufactured or sold the article to the United States from liability for the infringement of the patentee's exclusive right to manufacture, use and sell.

In *Marconi Wireless Telegraph Company v. Simon*, 246 U. S. 46, the wireless company brought suit to enjoin Simon from making delivery to the United States of wireless transmitters alleged to be covered by its patents. It was not made clear by the record that the making of the wireless sets was in and of itself an infringement. The Court said that if it had appeared that the making of the sets was in and of itself an infringement, Simon would not have been protected by the Act of 1910. It sent the case back to the lower court because of uncertainty as to whether the manufacture was in and of itself an infringement of the patents.

The correct view, and one consistent with the decisions of this Court, is that there is a "manufacture for" the United States within the meaning of the Act of July 1, 1918, and a taking by it, under the power of eminent domain, of rights under a patent, where the performance of the contract between the contractor and the United States to manufacture articles for the United States necessarily involves an infringement of a valid patent. Where the contract specifications make it impossible for the contractor to fulfill his contract and at

the same time avoid infringement, liability rests on the United States and the contractor is relieved. To hold otherwise would defeat the very purpose of the amendment effected by the Act of 1918, and disclosed by the Congressional Record.

It will be noted that the Act of 1918 provides that in any suit against the United States it may avail itself of any and all defenses that might be pleaded by any defendant in an action for infringement, which leaves it open to the United States to deny infringement and to deny the validity of the patent. The giving of authority for the assertion of these defenses is wholly inconsistent with the idea that the United States only shoulders liability where it intends to infringe a patent believed by it to be valid, because if that were the meaning of the Act of 1918 the defense of non-infringement or invalidity of the patent never would be asserted.

The only real question as to the meaning and effect of the Act of 1918 arises where the contractor who agrees to manufacture and deliver a certain device to the United States, may be able to fulfill his contract either by manufacture and delivery of a non-infringing device or by the manufacture and delivery of an infringing device. In such a case, it may well be said that an infringing device is not "manufactured for" the United States within the meaning of the Act of 1918. If the contractor has the choice of infringing or not infringing a patent in the fulfillment of his contract with the United

States, it is reasonable to suppose that it was not the intention of the Act of 1918 to allow the contractor to make a choice at the expense of the United States. This subject was discussed in *Wood v. Atlantic Gulf & Pacific Company*, 296 Fed. 718. The court, after considering whether the Act of 1918 intended to rest liability on the United States for the "use for" the United States of a patented device by the contractor in the performance of work for the United States, at page 722, said:

I can readily understand how the government should provide that, where it calls for the use by the contractor in doing work for it of a patented article, it should be willing to pay damages to the patentee because it had required the use of the patented article in doing the work. I cannot understand how the government would be willing to pay such damages as the patentee might suffer by the unauthorized use by an independent contractor, without any knowledge on the part of the government or any requirement of the government that such patented article should be used in the performance of the work, any more than the government would be willing to pay for damages suffered by employees of an independent contractor who were injured in the performance of the work of such independent contractor, unless the government directed the doing by such employee of the thing which brought about his injury.

When the government knows and obliges the contractor to use the patented article, of course the government should be willing to pay; but it will be going entirely too far to say that, because any independent contractor for his own convenience saw fit to use the patented article in doing government work, the government should pay for such use by him, when they did not know he was using it.

That a contract provision respecting liability of the contractor or of the United States for infringement of patents, or providing that liability to the patentee for such manufacture shall be borne by the contractor, can affect the operation of the Act of 1918 is not apparent. If the performance of the contract with the United States necessarily requires a manufacturer to manufacture and furnish an infringing article, it would seem that, under the statute, liability to the patentee rests only on the Government, and if there be a valid covenant by the contractor to protect the United States against claims of infringement, that operates merely as an indemnity contract under which the United States could recoup itself for damages recovered against it in the Court of Claims under the Act of 1918. That again is a question which may be laid aside, because not presented by this record, as the agreement is not in the record.

The conclusion should therefore be that, in the case of devices manufactured for the United States

by one contracting with it so to do, liability for infringement by manufacture and sale, as well as by use, rests exclusively on the United States under the Act of 1918, if the performance of the contract necessarily requires an infringement, but not so if the contract may be fulfilled by the manufacture and delivery of a noninfringing article, but the contractor, for reasons of his own, chooses to infringe or does so unwittingly.

It is only necessary to add that the Act of 1918 is prospective in its operation. It would be so construed without any express provision in it, but it contains the provision that the Court of Claims shall not entertain a suit or award compensation against the United States where the claim is based on the use or manufacture by or for the United States "of any article heretofore owned, leased, used by, or in the possession of the United States."

The Act covers the case of devices in the possession of the United States after its passage, but not those owned, used or possessed by it prior to its passage.

The Act of July 1, 1918, has been considered in the following cases:

Foundation Co. v. Underpinning & Foundation Co. (S. D. N. Y.), 256 Fed. 374;

Floyd Smith Aerial Equipment Co. v. Irving Air Chute Co. (W. D. N. Y.), 276 Fed. 834;

Isherwood v. Newport News Shipbuilding & Dry Dock Co. (E. D. Va.), 289 Fed. 282, 289. Same case on appeal, 5 F. (2d) 924, 933;

Wood v. Atlantic Gulf & Pacific Co. (S. D. Ala.), 296 Fed. 718;

Luellen Railway Artillery, Inc. v. Pullman Co. (N. D. Ill., E. D.). Unreported opinion printed as an appendix hereto.

II

APPLICATION OF THE ACT OF JULY 1, 1918, TO THE FACTS OF THIS CASE

The amended complaint (R. 48) alleged that "during the years 1918 to 1923" the defendant made and sold to the United States infringing gyroscopic compasses. It does not definitely appear whether these compasses were in the possession of the United States before or after July 1, 1918, the date of the passage of the Act here to be applied. If any infringing compasses were delivered to or in the possession of the United States prior to July 1, 1918, the question of liability for infringement by their manufacture and sale is to be determined by the Act of 1910 and not by the Act of 1918, and under the Act of 1910, which only gave a right to assert a claim against the United States for its use, and left its contractor liable for infringing manufacture and sale, a cause of action exists against the defendant.

Having in mind the rule as to the burden of proof, it is probably true that the complaint in this respect stated no cause of action against the defendant, Arma Engineering Company, under the Act of 1910. It fails to show, with reasonable certainty, that some of the infringing compasses were used by or in the possession of the United States prior to July 1, 1918. For all that appears from the allegation in the complaint quoted above, all of the compasses manufactured and sold to the United States in 1918 may have been delivered to it after July 1, so that in this respect the complaint does not bring the case under the Act of 1910.

The next question is whether the record shows that the contract between the Arma Engineering Company and the United States necessarily required in its performance the manufacture and delivery of infringing gyroscopic compasses. It is alleged that the compasses which were manufactured and delivered, in fact infringed the plaintiff's patent. The contract with the United States and specifications are not in the record, and there is nothing in the record to show that the Arma Engineering Company could not have fulfilled its contract without infringing the patents. For all that appears in the record, gyroscopic compasses might have been manufactured and delivered in full compliance with the contract without infringing.

If we are right in the view that the Act of 1918 does not place liability on the United States, where infringement is not necessary in the performance of a contract, but where the contractor, for reasons of his own, chooses to infringe, or does so in ignorance or inadvertently, it follows that the Act of 1918 does not fix liability on the United States in this case and relieve the Arma Engineering Company from liability for infringing manufacture and sale, and in that view of the case the court erred in dismissing the bill of complaint.

CONCLUSION

The question decided by the District Court is not one of its jurisdiction, but whether the plaintiff has a cause of action against the defendant in any court, and consequently the case is not one in which a direct appeal was permitted by Section 238 of the Judicial Code, as it stood prior to the Act of February 13, 1925.

If the Court concludes, however, that it has jurisdiction, the judgment below should be reversed, on the ground that, for all that appears in the record, the Arma Engineering Company chose to infringe for reasons of its own when an infringement was not necessary to the performance of its contract with the United States, and by the Act of 1918 it was not intended to impose on the United States liability for infringing manufacture by others, and release those contracting with it for the manufacture

and sale of articles for its use, unless an infringement necessarily results from the performance of the contract.

Respectfully submitted.

WILLIAM D. MITCHELL,
Solicitor General.

HARRY E. KNIGHT,
*Special Assistant to the
Attorney General.*

HENRY C. WORKMAN,
Attorney.

APRIL, 1926.

○